

Message Text

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ACTION AF-18

INFO OCT-01 EUR-25 ADP-00 SCI-06 NASA-04 AID-20 CIAE-00

COME-00 EB-11 FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00

XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 DODE-00

PM-07 H-02 L-03 NSC-10 PA-03 PRS-01 SS-15 USIA-12

STR-08 ABF-01 RSR-01 /190 W
----- 012229

P R 231440 Z MAY 73

FM AMEMBASSY TANANARIVE

TO SECSTATE WASHDC PRIORITY 5333

INFO AMEMBASSY PARIS PRIORITY

COMIDEASTFOR

CINCLANT NORFOLK VA

CINCUSNAVEUR LONDON ENG

C O N F I D E N T I A L TANANARIVE 0694

E. O. 11652: GDS

TAGS: EFIN, EAID, ETRD, MA, FR, US

SUBJ: PRELIMINARY ASSESSMENT OF GOMR DECISION TO QUIT

FRANC ZONE

REFS: A) TANANARIVE 688; B) TANANRIVE 681; C) TANANARIVE 406(NOTAL)

BEGIN SUMMARY: FOREIGN MINISTER RATSIRAKA' S SUDDEN DECLARATION THAT MADAGASCAR WOULD LEAVE FRANC ZONE SURPRISED ALL, INCLUDING FRENCH GOVT. SCHEDULED PRESS CONFERENCE BY ECONOMY AND FINANCE MINISTER MAY CLARIFY GOMR POSITION. MOVE COULD LEAD MADAGASCAR GOVT TO IMPOSE SEVERE IMPORT RESTRICTIONS AND TO SEEK INCREASED ECONOMIC ASSISTANCE FROM USG AND OTHER FOREIGN GOVERNMENTS IF FRENCH CUT AID AS RESULT MALAGASY MOVE. COMPETITIVE POSITION OF US EXPORTS COULD BE IMPROVED OVER LONG RUN. END SUMMARY.

1. MAY 23 EDITION OF " MADAGASCAR MATIN" ACCURATELY DESCRIBED SITUATION WHEN IT SAID THAT FONMIN' S INDICATION THAT MADAGASCAR
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WOULD LEAVE FRANC ZONE (REF A) AND " EFFECT OF REAL BOMB BLAST ON ALL ELEMENTS OF CAPITAL". SINCE BOTH MALAGASY AND FRENCH GOVTS HAD ANNOUNCED THAT NEGOTIATIONS IN FINANCIAL FIELD WERE CONTINUING, SUDDENNESS OF RATSIRAKA'S STATEMENT SEEMS TO HAVE CAUGHT EVERYONE, INCLUDING FRENCH, BY SURPRISE. AS INDICATED REF B, FRENCH AMB INFORMED AMB MENDENHALL EARLIER SAME DAY (MAY 22) THAT ALL MONETARY QUESTIONS WERE COMPLETELY REOPEN FOR NEGOTIATIONS BUT MADE NO SUGGESTION THAT GOMR HAD MADE FINAL DECISION RE FRANC ZONE. HOWEVER, LUCIEN COUCOUREUX, FRENCH TREASURY FINANCIAL ADVISOR FOR AFRICA AND MADAGASCAR, LEFT FOR PARIS EVENING MAY 22 AFTER ONLY 3

HOURS IN TANANARIVE. THIS SUGGESTS THAT HIS INSTRUCTIONS GAVE LITTLE ROOM FOR SATISFYING MALAGASY DEMANDS WHICH SEEM TO HAVE STIFFENED SINCE TENTATIVE AGREEMENT REACHED IN PARIS LAST MARCH BETWEEN FRENCH AND MALAGASY FINANCE MINISTERS.

2. BECAUSE OF TERSENESS OF RATSIRAKA'S REMARKS IT IS DIFFICULT TO ASSESS THEIR FULL IMPLICATIONS AT THIS TIME. (WE SHOULD HAVE A BETTER READING FOLLOWING PRESS CONFERENCE WHICH ECONOMY AND FINANCE MINISTER WILL BE GIVING NEXT DAY OR TWO ACCORDING TO FONMIN.) FOLLOWING REPRESENTS OUR INITIAL REACTION WHICH WE WILL ATTEMPT TO UPDATE AS WE OBTAIN ADDITIONAL INFORMATION.

A. RATSIRAKA'S STATEMENTS INDICATE THAT GOMR HAS TOTALLY REJECTED PLAN PUT FORWARD BY FRENCH MINISTRY OF FINANCE WHEREBY MALAGASY WOULD MAINTAIN 100 MILLION FRANCS IN OPERATIONS ACCOUNT WITH FRENCH TREASURY IN EXCHANGE FOR FRANC LINES OF CREDIT UNDER CERTAIN CONDITIONS (PARIS 6746 NOTAL). THIS SHOULD NOT IMPOSE SERIOUS HANDICAP ON MALAGASY. AS WE INDICATED IN REF C, GOMR SHOULD BE ABLE TO OBTAIN SAME KIND OF STABILIZATION CREDIT FROM ASSISTANCE AVAILABLE TO MADAGASCAR THROUGH IMF.

B. WHILE RATSIRAKA MADE NO MENTION OF FOREIGN ASSISTANCE, IT IS CLEAR THAT MADAGASCAR'S ABILITY TO GO IT ALONE OUTSIDE OF FRANC ZONE WILL DEPEND IN PART ON THE LEVEL OF FOREIGN AID IT RECEIVES. IF MADAGASCAR'S DEPARTURE FROM FRANC ZONE RESULTS IN DECREASED FRENCH AID, IT IS LIKELY GOMR WILL ATTEMPT TO OBTAIN COMPENSATING ASSISTANCE FROM US AND OTHER POTENTIAL DONORS.

C. ONCE IT DEFINITELY DECIDED THAT MALAGASY FRANC CAN NO LONGER BE FREELY CONVERTED INTO FRENCH FRANC (AS IS NOW THE CASE), GOMR CAN BE EXPECTED TO UNDERTAKE MEASURES TO REDUCE ITS ENDEMIC ADVERSE BALANCE OF TRADE WHICH WOULD QUICKLY DISSIPATE COUNTRY'S FOREIGN EXCHANGE RESERVES. (LAST YEAR'S

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VALUE OF IMPORTS WAS MORE THAN \$40 MILLION ABOVE EXPORTS. WE UNDERSTAND FOREIGN EXCHANGE RESERVES TO BE ABOUT \$60 MILLION INCLUDING SDR'S AND GOLD TRANCHE POSITION WITH IMF.) GOMR WOULD PROBABLY MOVE TO IMPOSE RESTRICTIONS ON IMPORTS FROM

FRANCE AND OTHER EEC COUNTRIES WHICH ARE PRESENTLY NOT LIMITED EXCEPT IN CASE OF FEW ITEMS WHICH ALREADY ACCORDED INFANT INDUSTRY PROTECTION.

3. IF MADAGASCAR LEAVES FRANC ZONE, IT WOULD BE OUR GUESS THAT GOMR WOULD ALTER PRESENT IMPORT QUOTA SYSTEM, WHICH HAS BEEN IMPOSED BY FRENCH UNDER COOPERATION AGREEMENTS, AND WHICH SEVERELY LIMITS IMPORTS FROM NON- EEC AND NON- FRANC ZONE COUNTRIES INCLUDING US. IF MALAGASY THUS DO AWAY WITH DISCRIMINATORY ASPECTS OF PRESENT IMPORT SYSTEM, COMPETITIVE POSITION OF US EXPORTS WOULD BE CONSIDERABLY IMPROVED. AT SAME TIME, HOWEVER, MADAGASCAR' S WITHDRAWAL FROM FRANC ZONE CAN BE EXPECTED TO HAVE FURTHER DAMPENING EFFECT ON FOREIGN INVESTMENT AND BUSINESS ACTIVITY IN GENERAL. THESE FACTORS, ALONG WITH ANY GOMR' S EFFORTS TO RESTRICT IMPORTS, WOULD OF COURSE LIMIT SIZE OF MARKET AT LEAST OVER SHORT RUN.

4. FRENCH DCM TOLD AMERICAN COUNTERPART MAY 23 THAT EMBASSY AWAITING INSTRUCTIONS FROM PARIS. IN MEANTIME AMB DELAUNEY, HE SAID, IS TREATING GOMR DECISION TO WITHDRAW FROM FRANC ZONE AS DISAPPOINTING RATHER THAN TRAGIC. HE REASONABLY CONFIDENT FINANCIAL MODUS VIVENDI, NOT TOO DETRIMENTAL TO FRENCH ECONOMIC INTERESTS, WILL EVOLVE. FRENCH DCM GAVE NO INDICATION THAT LACK OF FINANCIAL AGREEMENT WILL JEOPARDIZE UNDERSTANDINGS ALREADY REACHED IN MILITARY AND TECHNICAL ASSISTANCE FIELDS, BUT THAT REMAINS TO BE SEEN.
MENDENHALL

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*** Current Handling Restrictions *** n/a

*** Current Classification *** CONFIDENTIAL

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 23 MAY 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: willialc
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973TANANA00694
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: RR
Errors: n/a
Film Number: n/a
From: TANANARIVE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730551/aaaajono.tel
Line Count: 144
Locator: TEXT ON-LINE
Office: ACTION AF
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 73 TANANARIVE 688, TANANRIVE 681, 73 TANANARIVE 406(NOTAL)
Review Action: RELEASED, APPROVED
Review Authority: willialc
Review Comment: n/a
Review Content Flags:
Review Date: 07 AUG 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <07-Aug-2001 by boyleja>; APPROVED <09-Oct-2001 by willialc>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> gwr 980226
Subject: PRELIMINARY ASSESSMENT OF GOMR DECISION TO QUIT FRANC ZONE
TAGS: EAID, EFIN, ETRD, FR, MA, US
To: AF
CINCLANT NORFOLK VA
CINCUSNAVEUR LONDON
COMIDEASTFOR
PARIS
SECSTATE WASHDC
Type: TE

Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005